



Date: October 17, 2001
To: Inter-Regional Partnership
From: IRP Staff
RE: Incentives Discussion

Background

The Partnership has discussed over several meetings, the need for incentives to apply to the Jobs/Housing Opportunity Zones. This report is intended to accomplish several goals, including:

- Initiate a discussion among the Partnership about the role that incentives will play.
- Focus on a preliminary “action plan,” focusing on assistance that will be needed from the Partnership members.
- Review the list programs and committees identified in the incentives attachment.

Discussion

Role of Incentives

To set the stage for developing the incentives for the Jobs/Housing Opportunity Zones, it is important for the Partnership to identify what the development of incentives will mean to the success of the Pilot Project. Initially, the incentives have been identified as a method to support development in the selected zones, which in turn will impact jobs/housing balance at a regional level. With this in mind, the Partnership may want to consider the following questions:

- Should incentives be directly linked to jobs/housing balance or should criteria be written, e.g. economic revitalization, housing and/or job creation?
- How should the success of incentives be measured?

Action Plan Review

An action plan to put the incentives in place is imperative. Staff has identified three components necessary to move forward on incentives development.

Contacting each of the identified agencies for the attached incentives is occurring at a staff level. Additional help will be requested from Partnership members who may have previously developed relationships with individuals in those agencies. The Partnership may want to determine which legislators will initially be the focus of our attention. Senators Machado and Torlakson have demonstrated ongoing interest in the Partnership and might be considered excellent starting points.

Research and writing of the actual incentives, and modifications to existing regulations is being undertaken at a staff level. Incentive language can be brought to the Partnership for review at the November meeting. Staff is defining timelines for submitting legislation (early January '02 deadlines), as well as timeframes needed to modify administrative language to incorporate the Partnership's requests.

A series of presentations and meetings will be necessary to garner support for the incentives at the State level. The Partnership should consider assigning some or all members to these activities.

Incentive Related Programs and Committees

At the last meeting, staff provided a set of State level programs and committees, from which incentives may be derived. The programs and committees list has been refined and attached to this report.

Requested Actions

- Provide guidance to staff on the proposed action plan.

Housing Incentives

1. HCD MULTI-FAMILY HOUSING PROGRAM: Established in 1999 to assist in the new construction, rehabilitation and preservation of permanent and transitional rental housing for lower income households. A maximum of \$4.5 million per project in the form of low interest deferred payment loans (55-year term) at 3 percent simple interest on unpaid principal balance. Payments are due annually, with the balance of principal and interest due and payable upon completion of loan term.

Eligible Activities: New construction, rehabilitation, or acquisition and rehabilitation of permanent or transitional rental housing, and the conversion of nonresidential structures to rental housing. Eligible costs include the cost of child care, after-school care and social service facilities integrally linked to the assisted housing units; real property acquisition; refinancing to retain affordable rents; necessary onsite and offsite improvements; reasonable fees and consulting costs; and capitalized reserves.

Eligible Applicants: Local public entities, for-profit and nonprofit corporations, limited equity housing cooperatives, individuals, Indian reservations and rancherias, and limited partnerships in which an eligible applicant or an affiliate of an applicant is a general partner.

Application Process: Applications are invited through the issuance of periodic Notices of Funding Availability (NOFAs). The NOFA will specify the amount of funds available, application requirements, the allocation of rating points, and the deadline for submittal. The last NOFA was released in February 2001, with awards made in May 2001. Approximately \$52 million was committed during this most recent round of funding.

IRP Actions to Implement Incentive: Make contact with HCD Director to determine how IRP Jobs/Housing Opportunity Zone housing development projects can be given priority in the allocation of rating points. Interest would be in low interest loans for use in refinancing to retain affordable rents, onsite and offsite improvements, paying fees and consulting costs, real property acquisition and other eligible costs.

Contact:

Mike Greenlaw, (916) 327-3630
Department of Housing & Community Development
1800 Third Street
Sacramento, CA 94252
(916) 327-2886

2. TAX CREDIT ALLOCATION COMMITTEE (TCAC): TCAC is responsible for the administration of two low-income housing tax credit programs (one federal and one state program). The programs are in place to encourage private investment in producing rental housing for low- and very low-income families and individuals. The state program is not an independent program, but instead, supplements the federal credit program (though federal assistance is not required to receive credits under the state program).

Credits are allocated on a competitive basis using a formula based on total project cost, subtraction of non-depreciable costs (land, permanent financing costs, rent reserves and marketing costs), and the ratio of low income units to total units (or the square footage of low income units to the square footage of the total units). The maximum allowed per project is \$2 million.

The allocation plan may be modified by TCAC through formal modifications to their regulations following a public hearing. Any amendments to the plan will take effect immediately upon adoption by TCAC and approval by the Governor, or such later time as specified by TCAC.

Eligible Activities: Only rental housing projects are eligible for tax credits under the federal and state programs. Credits under the federal program may be applied to new construction or the acquisition and rehabilitation of certain projects. State credits are not available for acquisition costs, except for already assisted projects that are at-risk of conversion to market rate housing.

Eligible Applicants: A variety of entities are eligible to apply for tax credits through TCAC including corporations, non-profit organizations, individual investors, general or limited partnerships, and local governments. Those utilizing the tax credits must have an ownership interest in the project for which the credits are awarded. Proposed projects must be financially feasible.

Application Process: Submission of a complete application package followed by an application review process that takes about 75 days.

IRP Actions to Implement Incentive: Work with TCAC members and State Treasurer Philip Angelides to give very low- and low- income housing projects located in IRP Jobs/Housing Opportunity Zones priority in the allocation of tax credits. Determine contact for Federal program to ensure priority for Federal tax credits.

Contact:

State Treasure Philip Angelides
California Tax Credit Allocation Committee
P.O. Box 94209-0001
Sacramento, CA 94209
Telephone: (916) 654-6340
Fax: (916) 654-6033
Web: <http://www.treasurer.ca.gov/ctcac/ctcac.htm>

3. HOUSING ENABLED BY LOCAL PARTNERSHIPS (HELP): A program of the California Housing Finance Agency to provide affordable housing opportunities through program partnerships with local government entities consistent with local housing priorities.

HELP funds (\$100 million available for loans up to \$2 million dollars) are available to a local government entity as an unsecured loan from CHFA for up to 10 years at 3% simple interest per annum, and carry minimal restrictions and conditions. Repayment in full is required no later than 10 years from the date a commitment/loan agreement is signed between CHFA and a governmental entity.

Eligible Projects: HELP Program funds must be used to directly provide affordable housing units. Housing units must be affordable, with "affordable" being defined in the context of the unmet housing needs and priorities of the locality. HELP Program funds may not be used for technical assistance or administrative costs.

Eligible Applicants: Local government entities (defined as cities, counties, housing authorities, redevelopment agencies, community development commissions, etc.) must be directly involved with their program.

IRP Actions to Implement Incentive: Contact the individual below to determine if Zones can receive any priority in funding decisions. Assist and support local governments granted a Jobs/Housing Opportunity Zone that will include the development of affordable housing.

Contact

Doug Smoot
HELP Program Manager
(916) 322-1325
FAX: (916) 445-9315.
dsmoot@chfa.ca.gov

Economic Development Incentives

1. ENTERPRISE ZONE DESIGNATION: The Enterprise Zone Program targets economically distressed areas throughout California. Special state and local incentives encourage business investment and promote the creation of new jobs. The purpose of the Enterprise Zone Program is to provide tax incentives to businesses and allow private sector market forces to revive the local economy. The Technology, Trade and Commerce Agency (TT&C) designates enterprise zones according to specific criteria, pursuant to which certain entities may receive regulatory, tax, and other incentives for private investment and employment.

Eligible Applicants: An enterprise zone is designated upon application by a city, county or city and county that have established a definitive boundary for the zone. TT&C may also approve an expansion area for an existing zone, upon application by a city, county or city and county.

IRP Actions to Implement Incentive: The States eligibility criteria for enterprise zones could be amended to make Jobs/Housing Opportunity Zones eligible for designation. Or, one step further, Jobs/Housing Opportunity Zones could automatically become enterprise zones upon designation by the IRP, thus bypassing the application process with TT&C.

Pursue new or change existing legislation that would extend enterprise zone benefits to Jobs/Housing Opportunity Zones that address the jobs-housing imbalance. Find state legislator willing to sponsor new or revised legislation.

2. TAX INCREMENT FINANCING (TIF): When a Tax Increment Financing District is created, the assessed value of the land is established as a baseline. Baseline property taxes are distributed to various agencies according to the existing allocation formula. As the assessed value of the land within the district increases, taxes above the baseline (the “increment”) less a designated percentage allocated to existing taxing agencies are reserved for use within the district. This allows a municipality or redevelopment agency to bond for funding, and use the incremental increase to pay back the bonds. Or, a developer can take some risks, build public infrastructure in the district, and be reimbursed over time by the increment. A TIF stays in effect for 23 years.

Eligible Projects: In California, the statute limits Tax Increment Financing districts to redevelopment of blighted areas.

IRP Actions to Implement Incentive: Legislation needs to be pursued to allow Jobs/Housing Opportunity Zones to be designated Tax Increment Financing District. The IRP could pursue a streamlined process for making a Zone a TIF. As with enterprise zones, when the IRP designates an opportunity zone, it could automatically become a TIF district. Or the IRP could find a model

from another state that allows tax sharing to be used for new development in employment-depressed areas.

3. THE CALIFORNIA INFRASTRUCTURE & ECONOMIC DEVELOPMENT BANK (CIEDB): Promotes economic development and the revitalization of California municipalities by providing vital financing to local government entities. Loans between \$250,000 and \$20 million from a total pool of \$475 million.

Eligible Activities: City streets, state and county highways, public transit, drainage and flood control, educational facilities environmental mitigation, sewage collection and treatment, solid waste collection and disposal, safety facilities, water treatment and disposal, power, and communications facilities.

Eligible Applicants: Local government entities.

IRP Actions to Implement Incentive: Assist local governments that are awarded a Jobs/Housing Opportunity Zone designation and are interested in pursuing economic development loans. Interest would include infrastructure improvement loans for Zones.

Contact:

California Infrastructure & Economic Development Bank
801 K Street, Suite 1700
Sacramento, CA 95814
(916) 322-1399
FAX: (916) 322-6314

Housing/Economic Development (Mixed-Use) Incentives

1. CALPERS COMMUNITY HOUSING & DEVELOPMENT INVESTMENT PROGRAM: Community housing and development investments include low-to-moderate-income housing, multi-family low-income housing, urban infill, community redevelopment, and rehabilitation of core properties.

Eligible Activities: The Community Housing and Development Investment Program offers capital for residential, office, retail, entertainment, hotel, and mixed-use projects. Projects must meet certain criteria.

Eligible Applicants: Investors, managers, consultants, or other participants as selected by CALPERS.

Application Process: The Investment Committee meets on the third Monday of each month to discuss investment options.

IRP Actions to Implement Incentive: Contact CALPERS to get on Investment Committee agenda so as to inform them of the State IRP Pilot Project and Job/Housing Opportunity Zones and pending development projects, thereby generating CALPERS' interest in investing in development project located in Jobs/Housing Opportunity Zones.

Contact:

San Francisco Regional Office
301 Howard Street, Suite 2020

San Francisco, CA 94105
(877) 720-7377
Fax (415) 369-8501
www.calpers.org

2. CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE (CDLAC):

Established in 1985, CDLAC is responsible for administering the tax-exempt private activity bond program for the state. CDLAC implements the federal regulations that impose limits on the amount of tax-exempt private activity bonds a state may issue in a calendar year. The 2001 allocation for housing was \$1.7 billion. Over one hundred million dollars was available for small-issue industrial development.

Up to \$10 million in bonds are issued per project. Projects must fall within the six programs in the CDLAC process. The programs with relevance to the IRP Pilot project include: multi-family rental housing, single-family housing, teacher home purchasing, small-issue industrial development (bonds limited to \$10 million per project), and tax exempt facilities (bonds to help California businesses clean up the environment or provide alternative energy).

Eligible Activities: Land acquisition, new construction, purchase, and rehabilitation of multi-family rental housing. Issuance of mortgage revenue bonds to fund mortgages for the purchase of single-family homes (these may be either freestanding detached homes or condominiums/townhomes). Issuance of industrial development bonds to assist manufacturing companies to create new jobs.

Eligible Applicants: Any state or local governmental agency is eligible to apply for a Qualified Private Activity Bond Allocation for a specific project or program. While public agencies are the lead applicants, private companies and non-profit entities can be major partners in the project or program.

Application Process: An application needs to be filled out completely and submitted by deadlines set in the CDLAC allocation schedule. There is a \$300 filing fee for submitting an application. There is also a fee based on the amount of the actual allocation used. CDLAC will develop a 2002 schedule of meetings and allocation rounds at the beginning of the 2002 year.

IRP Actions to Implement Incentive: Executive Director Laurie Weir has indicated that CDLAC is considering changing the Committee's policies related to how jobs/housing balance affects the evaluation of applications for bond money. This is an opportunity for the IRP to present its case and attempt to determine if cities/counties and/or developers building projects in IRP Jobs/Housing Opportunity Zones can be given priority in the issuance of bonds. Interests would be in the multi-family rental housing program, the single-family housing program, teacher home purchasing program, small-issue industrial development bonds, and exempt facilities bonds.

Contact:

Laurie Weir, Executive Director
California Debt Limit Allocation Committee (CDLAC)
915 Capitol Mall, Room 311
Sacramento, CA 95814
Telephone: (916) 653-3255
Fax: (916) 653-6827
www.treasurer.ca.gov/cdlac/cdlac.htm